

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>EATON COUNTY TRANSPORTATION AUTHOR</b>	County <b>EATON</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>1/6/05</b>	Date Accountant Report Submitted to State: <b>3/11/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>LAYTON &amp; RICHARDSON, P.C.</b>			
Street Address <b>1000 COOLIDGE RD</b>		City <b>EAST LANSING</b>	State <b>MI</b>
		ZIP <b>48823</b>	
Accountant Signature <i>Layton &amp; Richardson P.C.</i>			Date <b>3/11/05</b>

EATON COUNTY TRANSPORTATION AUTHORITY

EATON COUNTY, MICHIGAN

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2004



**Layton & Richardson, P.C.**  
*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Eaton County Transportation Authority  
Charlotte, Michigan

We have audited the accompanying financial statements of the business-type activities of Eaton County Transportation Authority as of and for the year ended September 30, 2004, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Eaton County Transportation Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Eaton County Transportation Authority as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the financial statements, Eaton County Transportation Authority adopted the provision of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments Omnibus*.

The management's discussion and analysis and the required supplementary information on pages 27 through 39 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eaton County Transportation Authority's basic financial statements. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2005 on our consideration of the Eaton County Transportation Authority's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

*Layton & Richardson, P.C.*  
*Certified Public Accountants*

East Lansing, Michigan  
January 6, 2005

# Eaton County Transportation Authority

## Management's Discussion and Analysis

### New Financial Reporting

Starting with fiscal year ended September 30, 2004, Eaton County Transportation Authority (EATRAN) has revised and improved its financial reporting document. These changes are a result of standards set by the Government Accounting Standards Board (GASB). The intent of these new standards is to provide citizens and taxpayers with a better understanding of how the Authority's money and other assets are managed.

The new standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Authority. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Authority's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Authority's financial health.

The discussion and analysis of financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the Authority's financial statements, which immediately follows this section.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB Statement No. 34.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended September 30, 2004:

- EATRAN'S assets exceeded its liabilities at the end of the most recent fiscal year by \$1,531,102 (net assets).
- EATRAN'S total net assets decreased by \$424,378. The majority of the new decrease was due to vehicle depreciation.
- EATRAN did purchase one new bus through a contract (section 3037 Jobs Access/Reverse Commute) during the Fiscal Year at a cost of \$48,420. The bus was funded 50% with Federal funds and 50% with State funds. Some additional purchases were Maintenance equipment \$6,538 and office equipment \$37,229.

## Eaton County Transportation Authority

### Management's Discussion and Analysis

- Unreserved fund balance decreased by \$424,378 as a result of expenditures exceeding revenues in the current year at fund level.

#### Required Financial Statements

This annual report consists of a series of financial statements. The statement of Net Assets includes all of EATRAN'S assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligation of EATRAN'S creditors (liabilities). It also provides the basis for evaluating the capital structure of EATRAN and assessing the liquidity and financial flexibility of EATRAN.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Change in Net Assets. This Statement measures the success of EATRAN'S operations over the past year and can be used to determine whether EATRAN has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the changes in the cash balance during the reporting period.

#### Financial Analysis of Eaton County Transportation

The statement of Net Assets and the Statement of Activities provide the information to determine how EATRAN did financially during FY 2004. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining EATRAN'S financial health.

#### Net Assets

The following table shows, in condensed format, the net assets as of September 30, 2004. The management's discussion and analysis will present a condensed comparative statement of net assets next year when there are two years of statements in the GASB Statement No. 34 Format.

**Eaton County Transportation Authority**  
**Management's Discussion and Analysis**

**Assets**

Current assets	\$ 836,284
Fixed assets	<u>895,049</u>

Total assets	<u>\$1,731,333</u>
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**Liabilities**

Current liabilities	<u>\$ 200,231</u>
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Total liabilities	<u>\$ 200,231</u>
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**Net Assets**

Invested in capital assets,	
Net of related debt	\$ 895,049
Unrestricted	<u>636,053</u>

Total net assets	<u>\$1,531,102</u>
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The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

**Revenues**

Operating Revenue	
Demand Response	\$ 121,570
Contract Fares	44,955
Meals-on-Wheels	7,505
Non-operating Revenue	<u>2,076,503</u>

Total Revenue	<u>\$2,250,533</u>
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**Expenses**

Depreciation Expense	\$ 287,748
Other Operating Expenses	<u>2,387,163</u>

Total Expenses	<u>\$2,674,911</u>
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**Change in Net Assets**

\$ (424,378)

EATRAN'S operating revenue increased 7.59%, or \$12,279 from FY 2003. This increase was primarily due to ridership increasing from FY 2003's ridership of 192,436 to 217,435, up 12.99%. Non-operating revenue increased 5.53%, or \$108,968 from FY 2003. Operating expenses increased 6%, or \$152,291 from FY 2003.



## Eaton County Transportation Authority

### Management's Discussion and Analysis

#### Capital Assets and Debt Administration

At the end of the fiscal year, the Authority had \$895,049 invested in land, pole barn, operating facility, vehicles, maintenance equipment and office equipment (net of accumulated depreciation). The main capital asset added was the bus purchased in November 2003 through a Job Access/Reverse Commute contract with a value of \$48,420. Other additions included \$6,538 in maintenance equipment and \$37,229 in office equipment. EATRAN has two contracts: 1) Facility Renovation for \$106,600 and 2) Facility Expansion for \$426,390. During the current year EATRAN has spent \$5,347 of the facility renovation contract for a computer server room.

EATRAN has no long-term debt.

#### Economic Factors

Both State and Federal governments appropriate many of the funds that subsidize public transportation operations. While the Federal funds have remained constant at 10.95% of expenditures, the State funds have declined during the past two years in total dollars and as a percent of expenditures as detailed in the table below.

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 02	\$1,867,238	\$856,129	45.85%		
FY 03	\$2,093,000	\$916,734	43.80%	\$ 60,605	-2.05%
FY 04	\$2,197,650	\$928,287	42.24%	\$ 11,553	-1.56%

#### Millage (Property Taxes)

EATRAN'S property tax is levied each December 1, based on the state equalized value of property located in the county as of the preceding December 31. Taxes levied for EATRAN operations consisted of .25 mills. Property tax revenue as of September 30, 2004 was \$681,600.

#### Other Highlights

On June 21, 2004, all full-time and regularly scheduled part-time drivers, dispatchers, custodians, mechanics and mechanic aides at EATRAN voted to have the Amalgamated Transit Union Local 1761 as there

**Eaton County Transportation Authority**  
**Management's Discussion and Analysis**

collective bargaining representative. Negotiations began October 20, 2004 and are still pending.

**Contact Information**

This financial report is intended to provide our citizens, taxpayers and transit users with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Administrative Assistant at 916 E. Packard Hwy., Charlotte, MI 48813. Phone: (517) 543-4145.

# EATON COUNTY TRANSPORTATION AUTHORITY

## STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

### ASSETS

#### CURRENT ASSETS

Cash and equivalents	\$ 104,828
Investments	479,279
Accounts receivable	4,498
Due from federal government	81,050
Due from state government	117,211
Inventory	18,409
Prepaid expenses	31,009

#### TOTAL CURRENT ASSETS

836,284

#### CAPITAL ASSETS

At cost, less accumulated depreciation  
of \$ 2,139,320

895,049

#### TOTAL ASSETS

\$ 1,731,333

### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES

Accounts payable	\$ 105,369
Accrued wages and related payroll taxes	43,074
Compensated absences	51,788

#### TOTAL CURRENT LIABILITIES

200,231

#### NET ASSETS

Unreserved

1,531,102

#### TOTAL LIABILITIES AND NET ASSETS

\$ 1,731,333

See accompanying notes to financial statements.

EATON COUNTY TRANSPORTATION AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES
		CHARGES FOR SERVICES
Business-Type Activities	\$ <u>2,665,833</u>	\$ <u>174,030</u>
General Revenues and Expenses		
Property taxes		
Single business tax		
Unrestricted investment earnings		
Miscellaneous revenue		
Miscellaneous expenses		
Total General Revenues and Expenses		
Change in Net Assets		
NET ASSETS, OCTOBER 1		
NET ASSETS, SEPTEMBER 30		

See accompanying notes to financial statements.

PROGRAM REVENUES		
OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	BUSINESS - TYPE ACTIVITIES
\$ <u>1,320,189</u>	\$ <u>53,767</u>	\$ <u>(1,117,847)</u>
		681,600
		7,044
		10,747
		3,156
		<u>(9,078)</u>
		<u>693,469</u>
		(424,378)
		<u>1,955,480</u>
		\$ <u>1,531,102</u>

**EATON COUNTY TRANSPORTATION AUTHORITY**  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

OPERATING REVENUES	\$ 174,030
OPERATING EXPENSES	<u>2,674,911</u>
LOSS FROM OPERATIONS	(2,500,881)
NONOPERATING REVENUES	<u>2,076,503</u>
NET LOSS	(424,378)
NET ASSETS, OCTOBER 1	<u>1,955,480</u>
NET ASSETS, SEPTEMBER 30	\$ <u><u>1,531,102</u></u>

See accompanying notes to financial statements.

# EATON COUNTY TRANSPORTATION AUTHORITY

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

### CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 181,940
Payment to suppliers	(1,142,016)
Payment to employees	(1,277,656)
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,237,732)</u>

### CASH FLOWS FROM NONCAPITAL

#### FINANCING ACTIVITIES

Federal grants	290,908
State grants	989,923
Property taxes	681,600
Single business taxes	7,044
Local contributions	<u>3,156</u>

#### NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES

1,972,631

### CASH FLOWS FROM CAPITAL AND RELATED

#### FINANCING ACTIVITIES

Purchase of equipment	(43,767)
Purchase of capital assets	(48,420)
Proceeds from capital contributions	<u>48,420</u>

#### NET CASH (USED IN) CAPITAL AND RELATED AND RELATED FINANCING ACTIVITIES

(43,767)

### CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in investments	91,058
Interest received	<u>10,747</u>

#### NET CASH PROVIDED BY INVESTING ACTIVITIES

101,805

#### NET DECREASE IN CASH AND CASH EQUIVALENTS

(207,063)

### CASH AND CASH EQUIVALENTS, OCTOBER 1

311,891

### CASH AND CASH EQUIVALENTS, SEPTEMBER 30

\$ 104,828

See accompanying notes to financial statements.

**EATON COUNTY TRANSPORTATION AUTHORITY**

**STATEMENT OF CASH FLOWS - Concluded**

**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY(USED IN) OPERATIONS**

Loss from operations	\$ (2,500,881)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	287,748
(Increase) decrease in	
Accounts receivable	7,910
Inventory	(1,359)
Prepaid expenses	(2,055)
Increase(decrease) in	
Accounts payable	30,435
Accrued wages and related payroll taxes	(67,460)
Compensated absences	7,930
	<u>\$ (2,237,732)</u>

See accompanying notes to financial statements.



## EATON COUNTY TRANSPORTATION AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

#### NOTE 1: **REPORTING ENTITY**

Eaton County Transportation Authority was incorporated on July 17, 1980, as a nonprofit corporation organized pursuant to the State of Michigan Public Transportation Authority Act 7 of 1967 of the State of Michigan. Its member municipalities include the Cities of Charlotte, Grand Ledge, Eaton Rapids, and Olivet, the Township of Delta, and the County of Eaton.

#### RELATED ORGANIZATION

##### Eaton County

Eaton County levies and collects a millage for the Authority, but does not hold title to the Authority's assets, nor does it have rights or obligations to surpluses or deficits of the Authority. The Authority is a legally separate entity established to provide public transportation services to citizens within the county.

#### NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Eaton County Transportation Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of significant policies:

##### A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of Eaton County Transportation Authority. The Authority has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

##### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on the primary government Eaton County Transportation Authority. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

## EATON COUNTY TRANSPORTATION AUTHORITY

### NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2004

#### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### C. Basis of Presentation

The accounts of Eaton County Transportation Authority are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Authority resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

##### Enterprise Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

##### D. Basis of Accounting

The accrual basis of accounting is followed by Eaton County Transportation Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

## EATON COUNTY TRANSPORTATION AUTHORITY

### NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2004

#### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded

##### E. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

Building	10-40 years
Vehicles	5-10 years
Equipment	3-10 years

##### F. Receivables

Receivables have been recognized for all significant amounts due the Authority. No allowances have been made for uncollectible amounts because, if they remain unpaid, most delinquent receivables can be added to the tax roll and become a lien against the property.

##### G. Inventory

Inventory consists of consumable materials and supplies and is valued at the lower of cost or market.

##### H. Cash and Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

##### I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### J. Reliance on Funding Sources

The Authority receives a majority of its support from state and federal grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Authority's programs and activities.

## EATON COUNTY TRANSPORTATION AUTHORITY

### NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2004

#### NOTE 3: CASH DEPOSITS AND INVESTMENTS

Deposits are carried at costs. Deposits of the Authority are at Standard Federal Bank and Eaton Federal Bank, in the name of Eaton County Transportation Authority. Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States Banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Authority's cash and investments at September 30, 2004 are included on the balance sheet under the following classifications:

Cash and cash equivalents	\$ 104,828
Investments	<u>479,279</u>
Total	\$ <u>584,107</u>

The above amounts are classified by Government Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 409,703
Investments in securities, mutual funds and similar vehicles	174,239
Petty cash or cash on hand	<u>165</u>
Total	\$ <u>584,107</u>

Deposits are carried at fair market value. The Authority is authorized to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

# EATON COUNTY TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2004

### NOTE 3: CASH DEPOSITS AND INVESTMENTS - Concluded

The Governmental Accounting Standards Board Statement No. 3 risk disclosure for deposits are as follows:

	BOOK BALANCE	BANK BALANCE (Includes outstanding items)
Deposits		
Insured	\$ 200,000	\$ 200,000
Uninsured	<u>209,703</u>	<u>243,989</u>
Total deposits	<u>\$ 409,703</u>	<u>\$ 443,989</u>

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In addition, the laws of the State of Michigan do not provide for collateralization of bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

In accordance with Governmental Accounting Standards Board Statement No. 3, investments are classified into three categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the Authority or its agent in the Authority's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Authority's name).

	CATEGORY 1	CATEGORY 2	CATEGORY 3	CARRYING AMOUNT	MARKET VALUE
Public Funds					
Investment Trust	\$ _____	\$ _____	\$ <u>174,239</u>	\$ <u>174,239</u>	\$ <u>174,239</u>

The Authority has adopted a formal investment policy as required by Act 20, PA. 1943 as amended, that complies with State law. The Authority's remaining investment consists of the Public Fund Investment Trust, which, by definition, is not categorized by risk. The carrying values and market values are the same for these investments. The balance of this fund at September 30, 2004 was \$174,239.

# EATON COUNTY TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2004

### NOTE 4: CAPITAL ASSETS

Depreciation included in the determination of net earnings for the year ended September 30, 2004, amounted to \$278,748. As discussed in note 2, depreciation is computed by the straight line method. The principal categories of capital assets are summarized as follows:

	BALANCE SEPTEMBER 30, 2003	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2004
<b>CAPITAL ASSETS</b>				
Land	\$ 52,674	\$	\$	\$ 52,674
Pole barn	71,232			71,232
Operating facility	964,022			964,022
Vehicles	1,496,663	48,420		1,545,083
Maintenance equipment	95,403	6,538		101,941
Office equipment	<u>262,188</u>	<u>37,229</u>	<u>          </u>	<u>299,417</u>
<b>TOTAL CAPITAL ASSETS</b>	<u>2,942,182</u>	<u>92,187</u>	<u>          </u>	<u>3,034,369</u>
<b>ACCUMULATED DEPRECIATION</b>				
Land	\$	\$	\$	\$
Pole barn	791	2,375		3,166
Operating facility	603,478	43,657		647,135
Vehicles	921,177	226,474		1,147,651
Maintenance equipment	83,816	3,237		87,053
Office equipment	<u>242,310</u>	<u>12,005</u>	<u>          </u>	<u>254,315</u>
<b>Total accumulated depreciation</b>	<u>1,851,572</u>	<u>287,748</u>	<u>          </u>	<u>2,139,320</u>
<b>NET CAPITAL ASSETS</b>	<u>\$ 1,090,610</u>	<u>\$ ( 195,561 )</u>	<u>\$</u>	<u>\$ 895,049</u>
	USEFUL LIFE YEARS	PURCHASED WITH CAPITAL GRANTS	PURCHASED WITH AUTHORITY FUNDS	TOTAL
Land		\$ 52,674	\$	\$ 52,674
Pole barn	10-40		71,232	71,232
Operating facility	10-40	758,595	205,427	964,022
Vehicles	5-10	1,268,233	276,850	1,545,083
Maintenance equipment	3-10	56,032	45,909	101,941
Office equipment	3-10	<u>50,715</u>	<u>248,702</u>	<u>299,417</u>
<b>TOTAL</b>		<u>\$ 2,186,249</u>	<u>\$ 848,120</u>	<u>\$ 3,034,369</u>

When federal and state funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the Michigan Department of Transportation.

# EATON COUNTY TRANSPORTATION AUTHORITY

## NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2004

### NOTE 5: DUE FROM FEDERAL GOVERNMENT

Eaton County Transportation Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government as of September 30, 2004, is as follows:

For the Year Ended September 30, 2004

Net eligible expenses	\$ 2,350,418
Funding rate	<u>10.95%</u>
Section 5311 revenue	257,371
Funding received	( <u>216,537</u> )

Balance due from year ended September 30, 2004	\$ 40,834
Balance due from year ended September 30, 2003	10,353
Balance due from year ended September 30, 2002	16,731
Balance Due for Job Access and Reverse Commute Grant (see note 11)	<u>13,132</u>
Due from federal government	\$ <u>81,050</u>

### NOTE 6: DUE FROM STATE GOVERNMENT

Eaton County Transportation Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under the Operating Assistance Agreement as of September 30, 2004, is as follows:

Eligible costs	\$ 2,355,918
Funding rate	<u>42.236619648%</u>
Funding Earned	995,061
Funding received	( <u>928,213</u> )

Balance due from year ended September 30, 2004	\$ 66,848
Balance due from year ended September 30, 2003	14,527
Balance due from year ended September 30, 2002	8,632
Balance due from year ended September 30, 2000	8,725
Balance due for Job Access and Reverse Commute Grant (see note 11)	13,132
Balance due for Capital Grant Reimbursement Grant	<u>5,347</u>
Due from state government	\$ <u>117,211</u>

### NOTE 7: RETIREMENT PLAN

Eaton County Transportation Authority sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are at the discretion of the Board of Directors. During the year ended September 30, 2004, contributions to the plan charged to operations were \$0.

# **EATON COUNTY TRANSPORTATION AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS - Continued**

SEPTEMBER 30, 2004

**NOTE 8: CONTRIBUTED CAPITAL**

The contributed capital has been combined with the Authority's retained earnings for GASB 34 requirements.

**NOTE 9: COMPENSATED ABSENCES**

Vacation leave is earned in varying amounts depending on the number of years of service of an employee. A maximum of 80 hours can be carried over to the next year. Upon separation, unused vacation time accrued during the year of termination plus carryover hours from prior years will be paid along with the employee's final paycheck.

Sick leave is earned at the rate of 1.5 hours per payroll period, provided the employee has attained 70 hours of pay status credit. All employees will be reimbursed for hours in excess of 40 hours accrued sick leave at their anniversary date. Accrued sick leave in excess of 40 hours will be paid to a terminated employee at the time of separation.

Personal leave is earned in varying amounts depending on the number of years of service of an employee. Personal leave time is earned but not used is paid by their anniversary date each year. As of September 30, 2004 accrued compensated absence was \$51,788.

**NOTE 10: PROPERTY TAXES**

Eaton County Transportation Authority's property tax is levied on each December 1, on the state equalized valuation of property located in the county as of the preceding December 31.

The 2003 taxable valuation of Eaton County totaled \$2,724,098,097, on which ad valorem taxes levied for Transportation Authority operations consisted of .25 mills. Property tax revenue as of September 30, 2004 was \$681,600.

**NOTE 11: DUE FROM JOB ACCESS AND REVERSE COMMUTE GRANT**

Eaton County Transportation Authority receives funding from the U.S. Department of Transportation and the State of Michigan under Section 3037, Job Access and Reverse Commute Contract. The computation of the amount due from the federal and state government as of September 30, 2004, is as follows:

Net eligible expenses	\$ 77,474
Funding rate	<u>100%</u>
Funding earned	77,474
Funding received	( <u>51,210</u> )
Balance due from year ended September 30, 2004	\$ <u>26,264</u>
Due from Federal Government (see note 5)	\$ 13,132
Due from State Government (see note 6)	<u>13,132</u>
TOTAL	\$ <u>26,264</u>



# **EATON COUNTY TRANSPORTATION AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS - Concluded**

SEPTEMBER 30, 2004

### **NOTE 12: LEASES**

The Authority has a three year lease for a copier. The monthly lease payments are \$168.47 and the lease expires in June, 2005.

The future minimum lease payments (with initial or remaining lease terms of one year) as of September 30, 2004 are as follows:

YEAR ENDING	AMOUNT
September 30, 2005	\$ 1,516

### **NOTE 13: RISK MANAGEMENT**

The Authority is a member of the Michigan Transit Pool Self-Insurance Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of Eaton County Transportation Authority.

The Authority pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

The Authority continues to carry commercial insurance for employee health, workers' compensation, and other insurance including general liability and commercial building insurance.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

### **NOTE 14: BARGAINING AGREEMENT**

In June, 2004 the majority of the employees of the Authority organized and formed the Amalgamated Transit Union Local 1761. The union covers all full time and regularly scheduled part-time drivers, dispatchers, custodians, mechanics and mechanic aids. The union contract is still under negotiations as of the date of this audit report.

## ADDITIONAL INFORMATION



**Layton & Richardson, P.C.**

*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors  
Eaton County Transportation Authority  
Charlotte, Michigan

Our report on our audit of the basic financial statements of Eaton County Transportation Authority as of and for the year ended September 30, 2004 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the audited procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

*Layton & Richardson, P.C.*

*Certified Public Accountants*

January 6, 2005  
East Lansing, Michigan

**EATON COUNTY TRANSPORTATION AUTHORITY**  
**STATEMENT OF OPERATING REVENUES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Demand response (farebox)	\$ 121,570
Contract fares	44,955
Package delivery/Meals-On-Wheels	<u>7,505</u>
 TOTAL OPERATING REVENUES	 \$ <u><u>174,030</u></u>

**EATON COUNTY TRANSPORTATION AUTHORITY**  
**STATEMENT OF NONOPERATING REVENUES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

State of Michigan Operating Grants	
Nonurban Operating Assistance (Act 51)	\$ 995,061
Prior year adjustment	(9,125)
Jobs Access and Reverse commute operating grant	38,737
Prior year adjustment	5
Jobs Access Capital Grant 02-0036/Z5	24,210
Capital reimbursement grant	5,347
Total State of Michigan operating grants	<u>1,054,235</u>
Federal operating grants	
U.S. FTA operating grant -	
Section 5311	257,371
Prior year adjustment	(602)
U.S. FTA operating grant -	
Section 3037, Jobs Access and Reverse Commute operating grant	38,737
Prior year adjustment	5
Jobs Access Capital Grant 02-0036/Z5	24,210
Total Federal operating grants	<u>319,721</u>
Local nonoperating revenues	
Property taxes	681,600
Single business tax	7,044
Investment income	10,747
Other local revenues	3,156
Total Local nonoperating revenues	<u>702,547</u>
TOTAL NONOPERATING REVENUES	<u>\$ 2,076,503</u>

**EATON COUNTY TRANSPORTATION AUTHORITY**  
**STATEMENT OF OPERATING EXPENSES BY CATEGORY**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	JOB ACCESS REVERSE COMMUTE	TOTAL
Labor					
Operator's salaries and wages	\$ 778,741	\$	\$	\$ 21,034	\$ 799,775
Other salaries and wages	38,971	113,873	100,515	7,149	260,508
Dispatcher's salaries and wages	153,432			4,412	157,844
Fringe benefits	457,359	71,266	56,828	17,431	602,884
Services					
Advertising fees	399		8,336		8,735
Audit cost			6,200		6,200
Other services	330	28,336	48,577	2,017	79,260
Materials and supplies consumed					
Fuel and lubricants	171,499			5,430	176,929
Tires and tubes	17,042			587	17,629
Other materials and supplies	776	53,068	8,476	2,172	64,492
Utilities	14,004	7,378	2,373	683	24,438
Casualty and liability costs					
Premiums - public liability and property damage insurance	101,705			3,365	105,070
Other insurance			16,069	496	16,565
Purchased transportation	18,627			12,698	31,325
Miscellaneous expenses					
Travel and meetings	362		8,170		8,532
Association dues and subscriptions			15,580		15,580
Other miscellaneous expenses	118	5	8,955		9,078
Operating leases and rentals			2,319		2,319
Depreciation	212,373	9,956	47,503	17,916	287,748
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,965,738</b>	<b>\$ 283,882</b>	<b>\$ 329,901</b>	<b>\$ 95,390</b>	<b>\$ 2,674,911</b>

**EATON COUNTY TRANSPORTATION AUTHORITY**  
**STATEMENT OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	NORMAL SERVICES	JOB ACCESS	TOTAL
Labor	\$ 1,185,532	\$ 32,595	\$ 1,218,127
Fringe benefits	585,453	17,431	602,884
Services	92,178	2,017	94,195
Materials and supplies	250,861	8,189	259,050
Utilities	23,755	683	24,438
Casualty and liability costs	117,774	3,861	121,635
Purchased transportation service	18,627	12,698	31,325
Miscellaneous	33,190		33,190
Leases and rentals	2,319		2,319
Depreciation	<u>269,832</u>	<u>17,916</u>	<u>287,748</u>
Total	2,579,521	95,390	2,674,911
Less: Ineligible expenses	<u>229,103</u>	<u>17,916</u>	<u>247,019</u>
TOTAL ELIGIBLE EXPENSES	\$ <u><u>2,350,418</u></u>	\$ <u><u>77,474</u></u>	\$ <u><u>2,427,892</u></u>

**EATON COUNTY TRANSPORTATION AUTHORITY**  
**STATEMENT OF NET ELIGIBLE EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	FEDERAL SEC 5311 REVENUE	STATE OPERATING ASSISTANCE	JOB ACCESS AND REVERSE COMMUTE
<b>OPERATING EXPENSES</b>			
Labor	\$ 1,185,532	1,185,532	\$ 32,595
Fringe benefits	585,453	585,453	17,431
Services	92,178	92,178	2,017
Materials and supplies	250,861	250,861	8,189
Utilities	23,755	23,755	683
Casualty and liability costs	117,774	117,774	3,861
Purchased transportation service	18,627	18,627	12,698
Miscellaneous	33,190	33,190	
Leases and rentals	2,319	2,319	
Depreciation	269,832	269,832	17,916
Total operating expenses	<u>2,579,521</u>	<u>2,579,521</u>	<u>95,390</u>
<b>LESS INELIGIBLE EXPENSES</b>			
Audit fee	5,500		
RTAP	3,516	3,516	
Association dues	544	544	
Purchased transportation service	18,627	18,627	
Depreciation	200,916	200,916	17,916
Total ineligible expenses	<u>229,103</u>	<u>223,603</u>	<u>17,916</u>
Net eligible expenses	<u>\$ 2,350,418</u>	<u>\$ 2,355,918</u>	<u>\$ 77,474</u>
Federal Section 5311 revenue (10.95%)	<u>\$ 257,371</u>		
State Operating Assistance			
A. Reimbursement (42.236619648 x \$2,355,918)		<u>\$ 995,061</u>	
B. Statutory cap (60% x \$2,355,918)		<u>\$ 1,413,551</u>	
C. Must receive as a minimum 1997		<u>\$ 521,396</u>	
Federal and State Job Access and Reverse Commute			
A. Reimbursement (100% * 77,474)			<u>\$ 77,474</u>



**EATON COUNTY TRANSPORTATION AUTHORITY**  
**STATEMENT OF MILEAGE DATA (UNAUDITED)**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	NORMAL SERVICE	JOB ACCESS
Demand Response Vehicle Miles		
First Quarter	\$ 230,484	\$ 2,264
Second Quarter	235,313	2,318
Third Quarter	233,598	2,295
Fourth Quarter	<u>234,016</u>	<u>2,302</u>
Total Demand Response Vehicle Miles	\$ <u>933,411</u>	\$ <u>9,179</u>

NOTE - The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Eaton County Transportation Authority  
Charlotte, Michigan

We have audited the financial statements of Eaton County Transportation Authority as of and for the year ended September 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether financial statements are free of material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Layton & Richardson, P.C.*  
Certified Public Accountants

East Lansing, Michigan  
January 6, 2005



## AUDITORS' LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Directors  
Eaton County Transportation Authority  
Charlotte, Michigan

We have audited the general purpose financial statements of Eaton County Transportation Authority for the year ended September 30, 2004, and have issued our report on those statements. As part of the audit process, we tested and evaluated the system of internal accounting control and the procedures used to record the financial transactions of Eaton County Transportation Authority. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements.

The management of Eaton County Transportation Authority is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the internal accounting control system would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Eaton County Transportation Authority.

### PRIOR YEAR RECOMMENDATIONS

#### PAYROLL

1. We noted during our audit testing that employee timecards are not approved before payroll is processed. We recommend that all time cards be approved before payroll is processed. We also recommend that a person independent of the payroll function prepare the payroll taxes.

**We noted that the timecards are approved before processing. We recommend that a person independent of the payroll function prepare payroll taxes and bank reconciliation.**

**This has been implemented. However, we also recommend that the General Manager be the person to receive and review the unopened bank statements before they are reconciled.**

**The General Manager now receives the unopened bank statement. We noted that the person preparing the payroll taxes and doing the bank reconciliation is not independent of the payroll function. We recommend the General Manager review and approve the bank statements before they are reconciled. We also recommend that a person independent of the payroll function prepare payroll taxes and bank reconciliations. The General Manager should review the payroll returns before they are mailed.**

## PRIOR YEAR RECOMMENDATIONS - Concluded

### PAYROLL - Concluded

2. We noted during our audit testing that the amount of deductions taken from some of the employees' payroll did not agree to the amount authorized in their respective employee files. We recommend comparing the amount withheld to the amount authorized. A new deduction authorization form should be filled out each time the deduction amount changes. This will provide accurate and current records. **This has been implemented.**
3. Some employees' W-4's were filled out married but want a single rate withheld. However, they were entered into the computer at a married rate. We recommend going through all employee files to make sure the correct withholding allowance is in the payroll software program. This will correct the withholding differences. **This has been implemented.**
4. We noted during our audit testing that some payroll deductions were not authorized. All payroll deductions should have a deduction authorization form filled out and filed in the employee's file. This will provide adequate records and improve controls over payroll. **This has been implemented.**
5. We noted during our audit testing that all the federal withholding amounts after July were for the incorrect amount. We recommend checking your software to make sure you are using the most current and updated payroll rates, as the rates changed mid-year. This will verify the correct rates are being used for the withholding allowances. **This has been implemented.**
6. We noted during our audit that some employees' W-4's were out dated. We recommend new W-4's be filled out for both federal and state every three years. This will provide accurate and updated records. It also will verify that the correct withholding allowances are being used. **This has been implemented.**

### ACCOUNTS RECEIVABLE

We noted during our audit that accounts receivable invoices are not being used sequentially. We recommend that all accounts receivable invoices be used in a sequential order by date. This will provide a better audit trail and improve controls for accounts receivable. **This has been implemented.**

### COMPUTER SOFTWARE

We noted during our audit that the back-up for the computer software is kept on location. We recommend that a back-up be kept somewhere other than on location. This will provide better controls and will ensure there is a back-up if something happens to the building. **This has been implemented.**

We also recommend that the backup data files be tested at least four times a year. This will provide assurance that the backup data will be useful in the event that it is needed.

## CURRENT YEAR RECOMMENDATIONS

### CASH RECEIPTS

We noted during our audit that the policy for counting the bus fare boxes has changed. Now there is only one person counting the fare boxes. We recommend having two employees count the fare boxes. This will improve controls over cash receipts as it will decrease the opportunity for theft and fraud.

We noted during our audit that the policy for making the deposit has changed. Now the person who makes the deposit only fills in the dollar amount. The coins are taken to the bank and the bank teller runs it through the coin counter. Then the bank teller informs the depositor of the amount of the coins. The depositor then writes the amount of coins on the deposit slip, totals the deposit slip and makes the deposit. We recommend the amount of money that is to be deposited always be known before the deposit leaves the office, not when the deposit receipt is returned to the office.

We noted during our audit that the person who creates the deposit slip is the same person who takes the deposit to the bank. We recommend someone other than the person who creates the deposit slip take the deposit to the bank. This will improve controls over cash receipts as it will decrease the opportunity for theft and fraud.

### PAYROLL

During our examination we noted that the policy for payroll was changed during August 2004. One person is now in charge of the entire payroll function. We recommend that the payroll journal accompany the payroll checks when they are given to the authorized check signer. The check signer should review the payroll journal and make sure the hours and pay rates are correct. We also recommend the General Manager be the person to hand out payroll checks. This will help to improve controls over payroll.

### GENERAL

During our audit examination we noted that the Administrative Assistant is an authorized check signer. Although she does not sign any checks, she is an authorized signer so that she can transfer money from one bank account to another. We recommend that the General Manager be the person to make the bank money transfers. We also recommend that the Administrative Assistant be removed as an authorized check signer. This will improve controls over cash and will improve segregation of duties for this matter.

During our audit we noted that the Board minutes are not signed. We recommend that all Board minutes be signed.

We noted during the audit that the bank reconciliations are not being reconciled to the general ledger. We recommend that the monthly bank reconciliation agree to the general ledger. This will help to ensure the accuracy of the cash accounts on a monthly basis.

We are grateful to the Authority's employees for the assistance and cooperation we received during the audit and we thank them.

  
Certified Public Accountants

East Lansing, Michigan  
January 6, 2005